



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

TO: Participating Schools and Lenders

FROM: Diane Todd Sprague, Director

DATE: June 21, 2006

SUBJECT: Educational Loan Notes

NEW STUDENT LOAN INTEREST RATES

The interest rates for federal Stafford and PLUS loans will rise again on July 1, 2006, and hold a fixed rate. The interest rate for federal Stafford loans first disbursed on or after July 1, 2006, will be **6.8** percent, and the rate for PLUS loans will be **8.5** percent. Student loans issued prior to July 1, 2006, will retain variable rates.

The 2006-07 interest rates are based on the bond equivalent rate of 91-day Treasury bills (T-bills) auctioned at the end of May. The bond equivalent rate for the 91-day T-bills auctioned on May 31, 2006, is **4.843** percent which rounds to **4.84** percent. The chart below summarizes the new interest rates.

Note: The new interest rates for PLUS loans that were disbursed prior to July 1, 1998, are based on the weekly average of the one-year constant maturity Treasury yield. The rates will not be determined until later this month and will be published in the July issue of *Educational Loan Notes*.

Student Loan Interest Rates					
Loan Type	Status	FDLP Loans		FFELP Loans	
		7/1/2005 to 6/30/2006	7/1/2006 to 6/30/2007	7/1/2005 to 6/30/2006	7/1/2006 to 6/30/2007
Stafford Subsidized Loans	Repayment or Forbearance	5.3	6.8	5.3	6.8
	In-school, Grace, or Deferment	4.7	6.8	4.7	6.8
Stafford Unsubsidized Loans	Repayment or Forbearance	5.3	6.8	5.3	6.8
	In-school, Grace, or Deferment	4.7	6.8	4.7	6.8
PLUS Loans	All	6.1	7.9	6.1	8.5

Attached to this issue are detailed charts which feature the new rates that become effective July 1, 2006, for new and existing loans. If you have any questions, please contact Betty Calloway at 1-800-642-5626, extension 39639, or via email at callowayb@michigan.gov.



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MGA TO OFFER ONLINE ACCOUNT ASSISTANCE WITH WEB ADVISOR

The Michigan Guaranty Agency (MGA) in conjunction with our servicer, Sallie Mae, has developed a Web site that will assist borrowers who are in repayment. Those borrowers will be able to obtain information on their loans including the amount of each loan received, the disbursement date, the lender/servicer handling the loan, etc. Borrowers will also be able to update their demographic information. They can receive information about deferments and forbearances, as well as obtain the forms directly via the Web site. For some of the more complicated deferments, a deferment wizard is available to assist them in completing the form and determining eligibility.

Defaulted borrowers will also have access to this Web site. They will be able to receive the same information as borrowers in repayment, with the exception of deferments/forbearances. They will also receive the name of the collection vendor currently holding their account. Eventually, MGA plans to add payment processing as an option for these borrowers.

Borrowers will be required to sign up for this service and will obtain a user code and password allowing them to access the site whenever they wish to receive information. A button link to the site is available from the home page at mgaloan.com.

MYF INTRODUCES GRADUATE PLUS LOAN ENTRANCE COUNSELING

Mapping Your Future (MYF) now offers Graduate PLUS loan entrance counseling as part of Online Student Loan Counseling (OSLC). The counseling session describes the rights and responsibilities of borrowing a Graduate PLUS loan. Current guidance does not require schools to ensure Graduate PLUS loan borrowers complete an entrance interview prior to delivering loan proceeds. However, some schools will set a policy to require the entrance interview while others might recommend the counseling.

To experience Graduate PLUS loan entrance counseling from the student perspective, follow these steps:

1. Go to the Mapping Your Future home page at mapping-your-future.org.
2. Mouse over "Student Loan Counseling Interview" on the site menu on the left side of the page.
3. Select "PLUS Loan Entrance."
4. Choose Texas as your state.
5. Select the MYF Demo School.

Please note: If you complete the student form at the end of the session, do not enter your true Social Security Number or other private data.

Schools with an OSLC account that would like to add Graduate PLUS loan entrance counseling to their participation categories should contact Beth Ziehmer at feedback@mapping-your-future.org or (573) 796-3730. Schools that do not have an OSLC account should complete the school submission form at mapping-your-future.org/fao/signup/ to request participation.

HERA PROGRAM CHANGES EFFECTIVE JULY 1, 2006

The Higher Education Reconciliation Act of 2005 (HERA) signed by President Bush on February 8, 2006, made changes to the current Higher Education Act (HEA) that affect borrowers, institutions, and lenders. Many of these changes have been addressed in this and previous issues of *Educational Loan Notes*. For your convenience we have included as an attachment to this issue a [reference guide](#) that details changes that need to be made immediately and/or by July 1, 2006.



On a related note, legislation has been introduced to provide another extension of the HEA. The latest measure would extend the authority for programs not already reauthorized under the HERA until September 30, 2006. The current extension is due to expire June 30.

SCHOOLS RECEIVE VALUABLE INFORMATION AT MGA'S 2006 SPRING SCHOOLWORKSHOPS

The Michigan Guaranty Agency (MGA) conducted its 2006 Spring School Workshops on May 23-24 in Grand Rapids and Ypsilanti. Rebecca Diskin, Regional Training Executive for the Rocky Mountain Region of Sallie Mae Guarantee Services, presented valuable information on:

- Federal policy and regulatory updates
- Determining unmet need and options available to help students cover higher education costs.
- Information on types of audits, program reviews, and OIG reviews.
- Professional judgment and the expected family contribution.
- Understanding how to deal with challenging parents and students.
- An overview of the players involved in FFELP.

Rebecca provided a summary overview of the Deficit Reduction Act of 2005 (DRA) noting that the DRA amends several important components of the Higher Education Act (HEA) of 1965, as amended. Previous regulations established a fixed interest rate of 6.8 percent on Federal Stafford loans first disbursed on or after July 1, 2006. The DRA did not change this provision. However, it did change interest rates on PLUS loans issued in the Federal Family Education Loan Program (FFELP) from the scheduled fixed rate of 7.9 percent to a fixed rate of 8.5 percent. PLUS Loans for graduate students will allow graduate and professional students to be able to borrow PLUS loans up to the cost of attendance.

Two new grant programs for Pell Grant-eligible undergraduates were created.

- Academic Competitiveness Grant
First-year undergraduates who complete a rigorous high school curriculum are eligible for \$750. During the second year, students can receive up to \$1,300.
- National SMART Grant Program
Allows third- and fourth-year undergraduates majoring in math, science, technology, engineering, or critical foreign languages to

receive up to \$4,000 in funds. A 3.0 GPA in coursework is required.

Additional information is included in Dear Colleague Letters GEN-06-04, GEN-06-05, and GEN-06-08. *Note: Governor Jennifer Granholm signed legislation concerning the Rigorous High School Curriculum in regard to the Merit Scholarship. There will be a session at the MSFAA Summer Training regarding this topic.*

The U.S. Department of Education (ED) issued Dear Colleague Letter FP-06-08 which announced the approval of new expiration dates for the Federal Family Education Loan Program (FFELP) Stafford and PLUS loan Master Promissory Notes (MPN). The Stafford MPN now expires February 29, 2008, and the PLUS MPN expires March 31, 2008. ED issued FP-06-05 which provided promissory note addenda and revised Plain Language Disclosures that explain the changes to the terms and conditions of Federal Stafford loans, Federal PLUS loans, and Federal Consolidation loans that were made by the DRA.

In addition, Justin Draeger from MGA's Customer Services Unit provided an overview of how to determine aggregate loan limits and borrowers' current outstanding principal loan balances from data on the National Student Loan Data System (NSLDS).

There are a limited number of workshop manuals available for those who were unable to attend. If you would like one, please contact Stacy Cardwell in the School Services Unit at extension 36074 or via email at cardwells@michigan.gov.

MARK YOUR CALENDARS

MGA's Outreach Services Section is pleased to announce the dates of two annual statewide events pertaining to student financial aid information for students, parents, high school counselors, and student financial aid professionals – the High School Counselor Video Conference and College Goal Sunday.

The **High School Counselor Video Conference** is scheduled for November 14, 2006, from 9:00 a.m. to noon. For the sixth year in a row, it will be broadcast live via satellite from the WKAR

(Continued on the next page.)

Public Television Studio to numerous college campuses throughout the state. Exact locations are still being finalized and will be listed in a future issue of *Educational Loan Notes*.

College Goal Sunday will be hosted in the state of Michigan for the fourth consecutive year on February 11, 2007. The Michigan Guaranty Agency is pleased to have the opportunity to sponsor this year's event which is being coordinated by MGA, Partnership for Learning, and the Michigan Student Financial Aid Association (MSFAA). Michigan is one of 24 states and the District of Columbia to host the event. The number of host sites in Michigan has grown steadily over the past three years starting with ten sites and increasing to 22 as of 2006. More than 2,360 total participants attended College Goal Sunday 2006 and approximately 1,283 FAFSA forms were completed. Host sites for 2007 are being contacted and the list will be made available in early fall.

Information regarding both the High School Counselor Video Conference and College Goal Sunday will be available in the near future on our Web site at mgaloan.com. Questions may be directed to Peggy LaFleur via email at laflaurp@michigan.gov or by phone at extension 38319.

SALLIE MAE ADDRESS CHANGES

Sallie Mae has announced address changes for all applications, correspondence, and return checks (school refunds) from Panama City, Florida to Gainesville, Florida. The following changes became effective June 5, 2006.

FFELP Applications and Correspondence

P.O. Box 147020
Gainesville, Florida 32614-7020

Private Credit Applications and Correspondence

P.O. Box 147023
Gainesville, Florida 32614-7023

Checks and Monetary Correspondence

P.O. Box 147021
Gainesville, Florida 32614-7021

Overnight Mail

3011 SW Williston Road, Suite 101
Gainesville, FL 32608

Documents inadvertently sent to the previous addresses after June 5, 2006, are being forwarded to the new addresses for processing. If you have any questions, please contact Janet McKeown at extension 51723 or via email at mckeownj@michigan.gov.

LENDER GUIDANCE ON SPECIAL ALLOWANCE PAYMENTS FOR PLUS LOANS

ED has issued Dear Colleague Letter (DCL) FP-06-10 which provides guidance to lenders on billing for and receiving payment of special allowance for certain FFELP PLUS loans that were impacted by the HERA. A copy of the DCL can be accessed at <http://www.ifap.ed.gov/dpcletters/FP0610.html>.

Prior to the passage of the HERA lenders could not bill for and receive payments of special allowance for PLUS loans that fit the following categories:

- PLUS loans that disbursed on or after January 1, 2000, and before July 1, 2006, for any 12-month period beginning July 1, unless the bond equivalent rate of the 91-day Treasury bills auctioned at the final auction held prior to the previous June 1, plus 3.10 percent, exceeded 9.0 percent, and;
- PLUS loans that disbursed on or after July 1, 2006, during any 12-month period beginning July 1, where the average of the bond equivalent rates of the quotes of the three-month commercial paper (financial) for the last calendar week ending on or before that July 1, plus 2.64 percent, exceeded 9.0 percent.

With the enactment of the HERA, lenders may now bill for and receive special allowance payments on PLUS loans that were first disbursed on or after January 1, 2000, and before July 1, 2006, for periods beginning April 1, 2006. The first special allowance payments for these loans will be for the second quarter of Calendar Year 2006 (April 1, 2006, through June 30, 2006). Lenders may submit billings for these payments on or after July 1, 2006. Also, beginning with the quarter ending September 30, 2006, PLUS loans first disbursed on or after July 1, 2006, will be eligible for special allowance.

(Continued on the next page.)

Below are new category codes for special allowance billings that lenders **must** use:

CD – For PLUS loans first disbursed on or after January 1, 2000, and before April 1, 2006.

CH – For PLUS loans first disbursed on or after April 1, 2006.

XQ – For tax-exempt PLUS loans first disbursed on or after January 1, 2000, and before April 1, 2006. Lenders who are not able to modify their systems by the time they are ready to submit their quarterly billing in July 2006 may continue to report these loans as **XH**, but for the quarterly billing immediately following the lender's ability to report using the new **XQ** code, any earlier reported **XH** loans must be reversed and reported as a **XQ**.

XP – For tax-exempt PLUS loans first disbursed on or after April 1, 2006.

For general questions regarding special allowance billing and payment rates, please contact Betty Calloway at extension 39639 or via email at callowayb@michigan.gov. If you have questions regarding information contained in this DCL please email them to angela.roca-baker@ed.gov.

ED PAYS LENDERS INTEREST FOR LOANS OF KATRINA BORROWERS

ED recently sent a [memo](#) to notify lenders and lender servicers that they can begin billing for reimbursement of interest on FFELP Unsubsidized Stafford and PLUS loans that they hold or made to borrowers who are victims of Hurricanes Katrina and Rita.

The notification includes information that ED previously provided to hurricane-impacted institutions, lenders, and lender servicers in a March 3, 2006, memo. The first memo contained instructions on which loans could be discharged and which, if any, needed to be canceled with loan proceeds returned to the lender or lender servicer by the institution. Institutions were instructed to submit all requests for FFELP loan cancellations to their lenders or lender servicers no later than May 25, 2006.

In the current notification ED has established August 1, 2006, as the deadline for lenders and lender servicers to submit one single consolidated request for reimbursement of assessed interest on borrower loans affected by the hurricanes. The reimbursement billing will be handled separately from the lender quarterly billing process (LaRS), and ED has developed a [spreadsheet](#) for lenders and lender servicers to submit for interest reimbursement. Other instructions in the notification include: loan data to include on the spreadsheet, how to request a password, and the name and phone number of ED's contact person for reimbursement assistance.

For general questions regarding this matter, please contact Betty Calloway at extension 39639 or via email at callowayb@michigan.gov.

LENDER NOTIFICATIONS FROM ED

ED recently sent lenders a reminder to renew their Organizational Participation Agreements (OPAs). The current OPA is set to expire on September 30, 2006. The form is available at http://www.fp.gov/fp/attachments/fms_data_nslsds/2008LenSerOPA.doc.

The form only takes a few minutes to complete, and timely submission will ensure that your institution and/or your servicer will be able to continue reporting your lender interest and special allowance benefits with no interruption.

Lenders also received notification from ED that PGM Incorporated, an independent contractor, will begin conducting the **2006 Lender Reporting System Customer Satisfaction Survey** the third week of June. A random sampling of lenders will be contacted by telephone and asked to complete the survey. The survey should take no more than ten minutes to complete. All lenders who are contacted are encouraged to participate in the survey because feedback is extremely important in helping to improve the quality of ED's products and services.

If you have any questions concerning the OPA, reports, or the survey, please contact the Lender Reporting team at fsa_lr@ed.gov.

“Q” AND “A”**BANKRUPTCY AND BORROWER ELIGIBILITY****What is a bankruptcy?**

Bankruptcy is a judicial action to halt the normal collection of debts against the petitioner (or borrower). Generally, student loans are **not** dischargeable through bankruptcy although all collection activity would cease while the bankruptcy remained in an active and open status.

If student loans are not generally dischargeable through bankruptcy, why do I see bankruptcy claims reported on NSLDS?

Even though student loans are not generally dischargeable through bankruptcy, ED strongly encourages lenders to cancel any pending or future disbursements on a loan, and then make a determination on whether or not to file a claim based upon subsequent information received from the courts. In some instances, lenders are required by the bankruptcy court to file bankruptcy claims.

You mentioned that the lender is strongly encouraged to cancel any future or pending disbursements on active loans once a borrower files bankruptcy. If the lender cancels those disbursements, is the borrower still eligible for them in a new loan?

Lenders should advise borrowers of any cancellations and they may **reapply** for the loan funds in the same amount that was canceled. Some lenders may require borrowers to fill out a new Master Promissory Note.

So borrowers who declare bankruptcy and who have active bankruptcy claims are eligible for additional loans?

Yes, a FFELP applicant is eligible for new loan funds despite the filing of a bankruptcy. The Bankruptcy Reform Act of 1994 prevents a school or lender from denying a federal loan or grant to an applicant solely because he or she has filed a bankruptcy petition (*Common Manual*, Section 5.6).

However, if a borrower files a bankruptcy petition on loans that are already in default, the borrower remains ineligible due to the prior default, not due to the bankruptcy. Even though collection activity has ceased, borrowers may still contact the MGA Collections Unit at 1-800-642-5626, extension 60600, to make voluntary payments to regain loan eligibility.

What should a school consider when they discover a borrower has declared bankruptcy or has loans in a bankruptcy claim status?

If a school has information about a previous or pending bankruptcy action by a Stafford or PLUS loan applicant, the school may **not** refuse to certify additional loans if the applicant is otherwise eligible. Additionally, a school **cannot** certify a loan for less than the amount for which the applicant would otherwise be eligible outside of the bankruptcy (*Common Manual*, Section 5.6).

What is the school's responsibility in regard to collecting and reviewing bankruptcy plans for borrowers who file Chapter 13 bankruptcy?

Given that schools many **not** limit or deny student loans solely based on bankruptcies, the school should not be reviewing bankruptcy plans. In fact, neither the lender nor the school is responsible for ensuring that a borrower has received any type of approvals through the bankruptcy courts (*Common Manual*, Section 7.7.I).

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How does a school determine if a borrower had loans in default prior to their filing bankruptcy?

Through NSLDS, schools are able to determine loan eligibility based on claims and defaults. The following codes will help a school in determining whether a loan is in a default or bankruptcy claims status. A complete list of NSLDS Loan Status Codes is [attached](#) for your information.

NSLDS Bankruptcy Codes	
Borrower Retains Eligibility	Borrower IS NOT Eligible
BC - No prior default, active bankruptcy claim BK - No prior default, active bankruptcy claim DK - Default, bankruptcy discharge OD - Default, bankruptcy discharge	DB - Defaulted, active bankruptcy claim DO - Defaulted, active bankruptcy claim

Our school prefers to have good standing letters or letters that verify eligibility for borrowers that have active bankruptcy claims. How do we obtain these letters?

As a general policy, MGA does **not** provide letters of good standing for borrowers who have not had loans in default or discharged. Because bankruptcy claims are not defaults, MGA will not produce a letter declaring the borrower to be in good standing. As outlined by ED, NSLDS should be sufficient for most eligibility questions. However, if you need clarification regarding a borrower's eligibility status, you may contact the MGA Customer Services Unit at extension 77009.

Have a question you would like to ask? Contact Justin Draeger at extension 31940 or via email at draegerj@michigan.gov to submit your question or to suggest a topic you would like to see discussed in a subsequent issue of *Educational Loan Notes*.

Calendar of Upcoming Events

June 2006

25-28 MSFAA Summer Training
Boyne Mountain Resort
Boyne Falls, Michigan

July 2006

4 MGA Offices Closed

5-8 2006 NASFAA Conference
Washington State Convention & Trade Center
Seattle, Washington

August 2006

15 Mapping Your Future Evening Chat
Managing your student loans, including
repayment options, consolidation, and
cancellation.

If you need further information or wish to submit items for the calendar, please contact Jim Peterson, Editor, at extension 36944, or via email at petersonj@michigan.gov.

**Federal Family Education Loan Program
Regular Variable Rate Stafford Loan Interest Rates
July 1, 2006, through June 30, 2007**

Table 1

INTEREST RATE FORMULA (T-BILL RATE + ADDITIONAL SUM = INTEREST RATE)						
Type of Borrower	First Disbursement Made On or After	First Disbursement Made Before	91-Day Treasury Bill Rate	Additional Sum	Cap	Interest Rate for the Period of 7/01/06 - 6/30/07
"New" Borrower	10/01/92	7/01/94	4.84%	3.1%	9%	7.94%
"New" Borrower	7/01/94 (for a period of enrollment ending prior to 7/01/94)	N/A	4.84%	3.1%	9%	7.94%
All Borrowers (regardless of prior borrowing)	7/01/94 (for a period of enrollment that includes or begins on or after 7/01/94)	7/01/95	4.84%	3.1%	8.25%	7.94%

**Federal Family Education Loan Program
Regular Variable Rate Stafford Loan Interest Rates
July 1, 2006, through June 30, 2007**

Table 2

INTEREST RATE FORMULA (T-BILL RATE + ADDITIONAL SUM = INTEREST RATE)							
Type of Borrower	First Disbursement Made On or After	First Disbursement Made Before	During Periods	91-Day Treasury Bill Rate	Additional Sum	Cap	Interest Rate for the Period of 7/01/06 - 6/30/07
All Borrowers (regardless of prior borrowing)	7/01/95	7/01/98	In-school, grace and deferment periods.	4.84%	2.5%	8.25%	7.34%
			All other periods.	4.84%	3.1%	8.25%	7.94%
All Borrowers (regardless of prior borrowing)	7/01/98	7/01/06	In-school, grace and deferment periods.	4.84%	1.7%	8.25%	6.54%
			All other periods.	4.84%	2.3%	8.25%	7.14%

Federal Family Education Loan Program
"Converted" Variable Rate Stafford Loan Interest Rates
July 1, 2006, through June 30, 2007
(Loans That Were Subject to "Windfall Profits")

Table 3

INTEREST RATE FORMULA (T-BILL RATE + ADDITIONAL SUM = INTEREST RATE)				
Type of Loan	91- Day Treasury Bill Rate	Additional Sum	Cap	Interest Rate for the Period of 7/01/06 - 6/30/07
8/10% Loans (made prior to 7/23/92)	4.84%	3.25%	10%	8.09%
7% Loans	4.84%	3.1%	7%	7.00%
8% Loans	4.84%	3.1%	8%	7.94%
9% Loans	4.84%	3.1%	9%	7.94%
8/10% Loans (made on or after 7/23/92)	4.84%	3.1%	10%	7.94%

Federal Family Education Loan Program
Variable Rate PLUS and SLS Loan Interest Rates
July 1, 2006, through June 30, 2007

Table 4

INTEREST RATE FORMULA (T-BILL RATE + ADDITIONAL SUM = INTEREST RATE)						
Type of Loan	First Disbursement Made On or After	First Disbursement Made Before	91-Day Treasury Bill Rate	Additional Sum	Cap	Interest Rate for the Period of 7/01/06 - 6/30/07
PLUS/SLS*	N/A	10/01/92	**	3.25%	12%	**
PLUS*	10/01/92	7/01/94	**	3.1%	10%	**
SLS	10/01/92	7/01/94	**	3.1%	11%	**
PLUS	7/01/94	7/01/98	**	3.1%	9%	**
PLUS*	7/01/98	7/01/00	4.84%	3.1%	9%	7.94%
PLUS	1/01/00	7/0/06	4.84%	3.1%	9%	7.94%

* These loans will not be subject to special allowance payments during the four quarters ending 9/30/06, 12/31/06, 3/31/07, and 6/30/07.

** The rate for PLUS and SLS loans disbursed 10/01/92 through 6/30/98 is indexed to the average of the one-year constant maturity yield for the last calendar week ending on or before June 26, 2006, and is not available at this time. This chart will be updated in the July 2006 issue of *Educational Loan Notes*.

HIGHER EDUCATION RECONCILIATION ACT OF 2005 PROGRAM CHANGES

CHANGES AFFECTING BORROWERS

Interest Rates for New Loans – Effective for loans first disbursed July 1, 2006 or later.

- Stafford loans made on or after July 1, 2006, will carry a fixed interest rate of 6.8 percent. Previously, Stafford loans carried a variable rate. The recently approved [Addendum to the Stafford MPN](#) and the [Stafford Plain Language Disclosure](#) must be used with the current MPN. ED has approved the current Stafford MPN for use until February 29, 2008.
- PLUS loans made on or after July 1, 2006, will now carry a fixed interest rate of 8.5 percent, an increase from the previous 7.9 percent variable rate. The recently approved [Addendum to the PLUS MPN](#) and the [PLUS MPN Plain Language Disclosure](#) must be used with the current PLUS MPN. ED has approved the current PLUS MPN for use until March 31, 2008.

Federal Default Fee – Effective for loans guaranteed July 1, 2006, or later.

All Federal Stafford and PLUS loan borrowers are responsible for a one percent default fee deducted from the principal loan amount that must be deposited into a guarantor's Federal Student Loan Reserve Fund. To assist our borrowers, MGA will pay this one percent fee on behalf of our student borrowers for the 2006-07 academic year.

Military Deferment – Effective July 1, 2006.

For loans first disbursed July 1, 2001, or later all student borrowers are entitled to a three-year deferment of their Stafford loans if the student borrower is:

- Serving on active duty during a war, other military operation, or national emergency, or
- Performing qualifying National Guard duty during a war, other military operation or national emergency.

Study Abroad – Effective for loans first disbursed July 1, 2006, or later.

Students enrolled at a home institution but studying abroad must have their enrollment verified by either the lender or guarantor before the funds can be disbursed directly to the student at the student's request.

Eligible Foreign Institutions – Effective for loans first disbursed July 1, 2006, or later.

Student enrollment at a foreign school must be verified by either the lender or guaranty agency before funds are disbursed to the institution. If the institution requests, loan funds may be disbursed directly to the student.

Loan Disbursements to Foreign Institutions – Effective for loan periods July 1, 2006, or later.

Eligible borrowers attending foreign schools are no longer exempt from the multiple disbursements of loans to the borrower. In addition, for first-time undergraduate borrowers, the first installment of the loan may not be disbursed until the borrower completes 30 days of the program of study.

Leaves of Absence – Effective July 1, 2006.

Borrowers may take more than one leave of absence within any 12-month period provided the total absences do not exceed 180 days.

Forbearance Documentation – Effective for agreements made July 1, 2006, or later.

A borrower and lender may agree to a forbearance verbally, without the need for a written agreement. If the forbearance is agreed to verbally, the lender must send a notice regarding the terms of the agreement to the borrower and must update the borrower's file.

Graduate PLUS Loans – Effective for loans certified July 1, 2006, or later.

PLUS loan eligibility now includes graduate and professional students. The U.S. Department of Education (ED) will require the borrower to complete the Free Application for Federal Student Aid (FAFSA) and apply for maximum Stafford subsidized/unsubsidized loans first. The recently approved [Addendum to the PLUS MPN](#) and the [PLUS Plain Language Disclosure](#) must be used with the current PLUS MPN to apply for these loans.

Spousal Consolidation Loans – Effective for Consolidation applications received July 1, 2006, or later.

Married couples will no longer be eligible to consolidate their outstanding loans into a joint spousal Consolidation loan. Additionally, a borrower may no longer waive their grace period to apply for a FFELP or Direct Consolidation Loan.

Rehabilitation of Defaulted Loans – Effective for rehabilitation agreements beginning July 1, 2006.

The number of payments required of a borrower to rehabilitate a defaulted loan has changed from 12 consecutive payments to nine payments within ten consecutive months. Be advised, payments still must be voluntary and on time to the guarantor. No payment may be counted if received more than 20 days after the due date. MGA will be notifying borrowers of their potential eligibility for this program.

Administrative Wage Garnishment – Effective beginning July 1, 2006.

Borrowers failing to effectively resolve their defaulted student loans may be subject to administrative wage garnishment. Effective July 1, 2006, the amount garnished from disposable pay is increasing from the current 10% rate to the newly allowed rate of 15%. Orders issued prior to July 1, 2006, at the 10% rate will be amended to increase the deduction to the new 15% rate. Borrowers will be given the opportunity to request a hearing regarding the increase.

Loan Forgiveness for Teachers – Effective for applications received July 1, 2006, or later.

Teachers in non-profit, private schools and exempt from state certification requirements may be eligible for loan forgiveness. These borrowers would be required to take competency tests in the applicable teaching grade levels. The tests must be recognized by five or more states, and the score must equal or exceed the average passing score of those five states. In addition, the increased amounts of forgiveness (\$17,500) for teachers in certain specialties is now permanent.

False Certification Discharges – Effective July 1, 2006.

Identify theft has been added as an approved reason for the discharge of a student's loan(s). Borrowers who were credited or received loans and believe these loans were made as a result of the theft of their identity should contact the holder of the loan(s) in question. The lender/guarantor will advise the borrower regarding the documentation and forms that will need to be submitted.

Origination Fees – Effective for loans disbursed July 1, 2006, or later.

Borrowers are currently charged an origination fee which cannot exceed three percent of the amount of their loan principal. This fee is deducted proportionately from each disbursement. The amount charged to borrowers will be reduced over the next five years as follows:

- 2 percent for loans with the first disbursement of principal made on or after July 1, 2006, and before July 1, 2007;
- 1.5 percent for loans with the first disbursement of principal made on or after July 1, 2007, and before July 1, 2008;
- 1 percent for loans with the first disbursement of principal made on or after July 1, 2008, and before July 1, 2009;
- 0.5 percent for loans with the first disbursement of principal made on or after July 1, 2009, and before July 1, 2010; and
- No origination fee for loans with the first disbursement of principal made on or after July 1, 2010.

Student Eligibility – Effective July 1, 2006.

To be eligible for a Title IV loan a student who has been convicted of, or pled nolo contendere or guilty to a crime involving fraud in obtaining funds, must have completed the repayment of such funds to the loan holder.

Drug Related Suspension – Effective July 1, 2006.

Current legislation was changed to limit the suspension of eligibility for Title IV funds for those convicted of drug related offenses during a period of enrollment for which the student received Title IV funds. The chart listing the offenses and ineligibility periods has not changed.

CHANGES AFFECTING SCHOOLS

Low Cohort Default Rate Exemptions – Effective for loans disbursed February 8, 2006, or later.

Schools with a cohort default rate less than 10 percent for each of the three most recent fiscal years for which data is available are exempt from multiple disbursements for enrollment periods no more than one semester, trimester, quarter, or four months. These schools are also exempt from the 30-day delay of disbursing funds for first-time undergraduate borrowers.

School as Lender Requirements – Effective for loans disbursed prior to April 2, 2006.

For an eligible institution to be a lender, the institution must have, as of February 7, 2006, met the school eligibility requirements that existed and must have made loans on or prior to April 1, 2006.

As of July 1, 2006, a school lender must:

- Only make Stafford loans to graduate or professional students enrolled in their own institution;
- Award only competitive contracts for services relating to any aspect of this loan administration;
- Offer a lower origination fee and/or interest rate than other FFELP loans;
- Have a cohort default rate no greater than 15 percent;
- Submit annual audits to the U.S. Secretary of Education performed during periods the institution was a lender; and
- Use any special allowance and interest payments from borrowers, interest subsidies from ED, or any proceeds from the sale of the loans for need-based grants.

Academic Year – Effective July 1, 2006.

The definition has been clarified to require that credit-hour schools provide a minimum of 30 weeks of instructional time, and clock-hour schools a minimum of 26 weeks of institutional time.

Telecommunications Eligibility – Effective July 1, 2006.

- Schools offering all or part of an eligible program through telecommunications are eligible for Title IV funds if the institution has been evaluated and determined to have the ability to provide distance education by a recognized accrediting agency. More information will be forthcoming on this change.
- Telecommunication courses which lead to a recognized certificate no longer have to be a year or longer in length.
- Telecommunication courses are now eligible for Title IV aid regardless of whether the total of telecommunication and correspondence courses equal or exceed 50 percent of all courses offered at an institution.

Income Verification - Effective July 1, 2006.

Financial data reported by students and parents may be confirmed with the Internal Revenue Service to verify reported information on the student financial aid application. However, this process will not be implemented until a match with IRS is authorized under the Internal Revenue Code.

Refunds for Clock-Hour Schools – Effective July 1, 2006.

The calculation to determine whether a student has completed 60 percent of the payment period has been modified to allow clock-hour schools to divide the total number of clock hours comprising the payment period or period of enrollment into the number of clock hours scheduled to be completed by the student in that period as of the date of the student's withdrawal.

Post-Withdrawal Disbursement Counseling – Effective July 1, 2006.

Schools are required to contact a withdrawn student to obtain confirmation that the funds are still needed by the borrower before requesting disbursement. Schools must remind borrowers of their obligation to repay these funds, and document in the borrower's file that the borrower was contacted.

Return of Title IV Funds – Effective July 1, 2006.

Schools must return unearned Title IV funds to the respective programs no later than 45 days after the date of withdrawal. Previously schools must have completed this within 30 days. Additionally, for grant overpayments, any amounts of \$50 (previously \$25) or less do not have to be returned by the student.

CHANGES AFFECTING LENDERS

Loan Funds through Escrow – Effective for disbursements made to escrow agents July 1, 2006, or later.

The statute now includes the same language as the existing regulatory requirement which limits a lender's ability to receive interest on loans disbursed through an escrow agent to three days before the first disbursement of the loan. The lender may make payment to the escrow not more than ten days prior to the date funds are to be disbursed to the borrower.

Insurance Percentage – Effective for first disbursements July 1, 2006, or later.

Loans under FFELP, excluding Lender of Last Resort, will be insured for 97 percent of the unpaid principal balance. Exceptional Performer claims will be paid at 99 percent of the unpaid principal balance.

Repayment Date – Effective July 1, 2006.

The calculation of a borrower's repayment period has been clarified to state the repayment date will begin the day after the six-month grace period which begins the day after the student falls below half-time attendance.

Reinsurance Payments – Effective for requests filed July 1, 2006, or later.

Guaranty agencies must now file claims for reinsurance to the U.S. Secretary of Education within 30 days after the guaranty agency makes payment to the lender. Because of this change, MGA may need to revise the timeframes currently used to pay lenders for their claims. We will advise lenders as to any change in this process.

Military Deferment Definitions

HERA defines the terms relating to a military deferment as follows:

Active Duty – The term “active duty” has the meaning given such term in section 101(d)(1) of title 10, United States Code, except that such term does not include active duty for training or attendance at a service school.

Military Operation – The term “military operation” means a contingency operation as such term is defined in section 101(a)(13) of title 10, United States Code.

National Emergency – The term “national emergency” means the national emergency by reason of certain terrorist attacks declared by the President on September 14, 2001, or subsequent national emergencies declared by the President by reason of terrorist attacks.

Serving on Active Duty – The term “serving on active duty during a war or other military operation or national emergency” means service by an individual who is:

- A Reserve of an Armed Force ordered to active duty under section 12301(a), 12301(g), 12302, 12304, or 12306 of title 10, United States Code, or any retired member of an Armed Force ordered to active duty under section 668 of such title, for service in connection with a war or other military operation or national emergency, regardless of the location at which such active duty service is performed; and
- Any other member of an Armed Force on active duty in connection with such emergency or subsequent actions or conditions who has been assigned to a duty station at a location other than the location at which such member is normally assigned.

Qualifying National Guard Duty – The term “qualifying National Guard duty during a war or other military operation or national emergency” means service as a member of the National Guard on full-time National Guard duty (as defined in section 101(d)(5) of title 10, United States Code) under a call to active service authorized by the President or the Secretary of Defense for a period of more than 30 consecutive days under section 502(f) of title 32, United States Code, in connection with a war, other military operation, or a national emergency declared by the President and supported by Federal funds.

Reminder: ED announced the approval of all FFELP revised loan deferment forms. The revised forms are available for immediate use. Be advised, however, that beginning September 25, 2006, only these approved forms may be provided to eligible borrowers. Copies of the revised forms may be obtained by clicking on [Dear Colleague Letter FP-06-06](#).

NSLDS Loan Status Codes

2006–2007 SARs & ISIRs

Code	Status	Eligible for FSA funds
AL	Abandoned Loan	Yes
BC	No Prior Default Bankruptcy Claim, Discharged	Yes, because loan was not in default and was discharged
BK	No Prior Default Bankruptcy Claim, Active	Yes, because loan was not in default
CA	Cancelled (For Perkins means Loan Reversal)	Yes
CS	Closed School Discharge	Yes
DA	Deferred	Yes
DB	Defaulted, then Bankrupt, Active. (Perkins: all bankruptcies; FFELP and Direct Loans: Chapter 13)	No, unless debtor can show that loan is dischargeable. See Dear Colleague letter GEN-95-40, dated September 1995
DC	Defaulted, Compromise	Yes, because compromise is recognized as payment in full
DD	Defaulted, Then Died	No, because if borrower is reapplying, then loan status is in error
DE	Death	No, because if borrower is reapplying, then loan status is in error
DF	Defaulted, Unresolved	No
DI	Disability	Yes
DK	Defaulted, Then Bankrupt, Discharged. (Perkins: all bankruptcies; FFELP and Direct Loans: Chapter 13)	Yes, because defaulted loan has been totally discharged
DL	Defaulted, in Litigation	No
DN	Defaulted, Then Paid in Full Through Consolidation Loan	Yes
DO	Defaulted, Then Bankrupt, Active, other. (FFELP and Direct Loans in Chapters 7, 11, and 12)	No, unless debtor can show that loan is dischargeable. See Dear Colleague letter GEN-95-40, dated September 1995
DP	Defaulted, Then Paid in Full	Yes, because loan was paid in full
DR	Defaulted Loan Included in Roll-up Loan	Yes, because the loan was combined with other loans and subrogated to the Department, which reported the same information to NSLDS in one loan. The status of that record will determine eligibility.
DS	Defaulted, Then Disabled	Yes, because loan debt is cancelled
DT	Defaulted, Collection Terminated	No
DU	Defaulted, Unresolved	No
DW	Defaulted, Write-Off	No
DX	Defaulted, Satisfactory Arrangements, and Six Consecutive Payments	Yes, assuming student continues to comply with repayment plan on defaulted loan, or is granted forbearance by the GA

Code	Status	Eligible for FSA funds
DZ	Defaulted, Six Consecutive Payments, Then Missed Payment	No, loan is back in active default status
FB	Forbearance	Yes
FC	False Certification Discharge	Yes
IA	Loan Originated	Yes
ID	In School or Grace Period	Yes
IG	In Grace Period	Yes
IM	In Military Grace	Yes
IP	In Post-Deferment Grace (Perkins only)	Yes
OD	Defaulted, Then Bankrupt, Discharged, other (FFELP and Direct Loans in Chapters 7, 11, and 12)	Yes, because defaulted loan has been totally discharged
PC	Paid in Full Through Consolidation Loan	Yes, because it does not matter if the consolidation loan was a FFEL or Direct Loan, nor whether underlying loans were in default
PF	Paid in Full	Yes
PM	Presumed Paid in Full	Yes
PN	Non-defaulted, Paid in Full Through Consolidation Loan	Yes
RF	Refinanced	Yes, because defaulted loans cannot be refinanced
RP	In Repayment	Yes
UA	Temporarily Uninsured—No Default Claim Requested	Yes
UB	Temporarily Uninsured—Default Claim Denied	Yes, because the loan is not a federal loan while temporarily uninsured
UC	FFEL: Permanently Uninsured/Unreinsured—Non-defaulted Loan. Perkins: Non-defaulted Loan Purchased by School	Yes
UD	FFEL: Permanently Uninsured/Unreinsured—Defaulted Loan. Perkins: Defaulted Loan Purchased by School	Yes, because the loan is no longer a federal loan
UI	Uninsured/Unreinsured	Yes, does not matter if the loan was in default
XD	Defaulted, Satisfactory Arrangements, and Six Consecutive Payments	Yes, assuming student continues to comply with repayment plan on defaulted loan, or is granted forbearance by the GA